COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4204-03
Bill No.: Perfected HCS for HB 1091
Subject: Tax Credits; Department of Economic Development
Type: Original
Date: March 24, 2014

Bill Summary: This proposal authorizes three new tax credits for port authorities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	($60,957 to $6,060,957)	($66,353 to $6,066,353)	($67,073 to $6,067,073)
Total Estimated Net Effect on General Revenue Fund	**($60,957 to $6,060,957)**	**($66,353 to $6,066,353)**	**($67,073 to $6,067,073)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development** (**DED**) assumed §135.1662 creates a state tax credit for taxpayers engaged in manufacturing of goods or the distribution of manufactured goods that use port facilities in Missouri and increase the volume at Missouri facilities by a minimum of five percent. Exceptions are allowed as determined by DED. DED is responsible for issuing guidelines and for the computation of any carryover of the tax credits. DED must also establish criteria for international trade facilities and anticipates the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing applications and determining whether applicants meet the criteria for program participation.

§§135.1664 and 135.1666 create a tax credit for international trade facilities and companies dealing in international trade respectively. §135.1664 which allows for a tax credit on freight moved by barge or rail of $50 for every TEU ("twenty-foot equivilant unit" - a measure of volume) up to sixteen tons of non-containerized cargo. The program is capped at $6 million for each fiscal year until the program sunsets on June of 2019. §135.1666 allows a tax credit to taxpayers who increase qualified trade activities in an amount of $3,500 per new employee or 2% of the capital investment made. The credits may be transferred, sold and they have a 5-year carry forward provision. The act requires DED to establish procedures to determine whether a tax credit should be granted and whether the applicant qualifies under the guidelines.

DED is requesting one FTE per the above comments and also assumes a negative fiscal impact of up to $6 million as a result of the proposed legislation. However, this negative impact would be offset by an unknown positive economic benefit as a result of the increase in economic activity as a result of the program.

Officials at the **Office of Administration's Division of Budget and Planning (BAP**) assume no fiscal impact on BAP. However, this proposal could lower General and Total State Revenue by $6 million annually.

In response to the previous version of this proposal, officials at the **Department of Revenue** (**DOR**) assumed the IT portion of this proposal would require changes to multiple tax processing systems valued at $36,691 for 1,344 FTE hours. DOR assumes the Personal Tax Division will need one Revenue Processing Technician I ($25,884) due to increased tax credits claimed and increased correspondence. The Corporate Tax Division will need three Revenue Processing Technician I ($25,884) due to increased tax credit redemptions, compliance mailings, correspondence and tax credit transfers.

ASSUMPTION (continued)

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of these tax credits with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

In response to the previous version of this proposal, officials at the **Missouri Department of Transportation** assumed there was no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume an unknown reduction of premium tax revenues as a result of the creation of the international trade facility tax credits is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet

ASSUMPTION (continued)

these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

House Amendment 1

Oversight assumes House Amendment 1 will not fiscally impact state or local governments.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - §135.1662 tax credit for increased cargo volume	$0 to ($3,500,000)	$0 to ($3,500,000)	$0 to ($3,500,000)
Revenue Reduction - §135.1664 tax credit for international trade facility	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
Revenue Reduction - §135.1666 tax credit for increased qualified trade	$0 to ($500,000)	$0 to ($500,000)	$0 to ($500,000)
Costs - Department of Economic Development			
Personal Service	($34,180)	($41,426)	($41,840)
Fringe Benefits	($17,434)	($21,129)	($21,340)
Equipment and Expenses	($9,343)	($3,798)	($3,893)
Total Costs - DED	($60,957)	($66,353)	($67,073)
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($60,957 to $6,060,957)**	**($66,353 to $6,066,353)**	**($67,073 to $6,067,073)**
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for these tax credits could be positively affected.

FISCAL DESCRIPTION

This legislation authorizes three new tax credits for port authorities.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Missouri Department of Transportation
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State

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March 24, 2014

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JH:LR:OD